HYDRO

NEWFOUNDLAND AND LABRADOR HYDRO

Annual Report 1975

HYDRO

NEWFOUNDLAND AND LABRADOR HYDRO

Head Office: St. John's, Newfoundland, A1A 2X8, Telephone (709) 753-8990, Telex 016-4503

April 30, 1976.

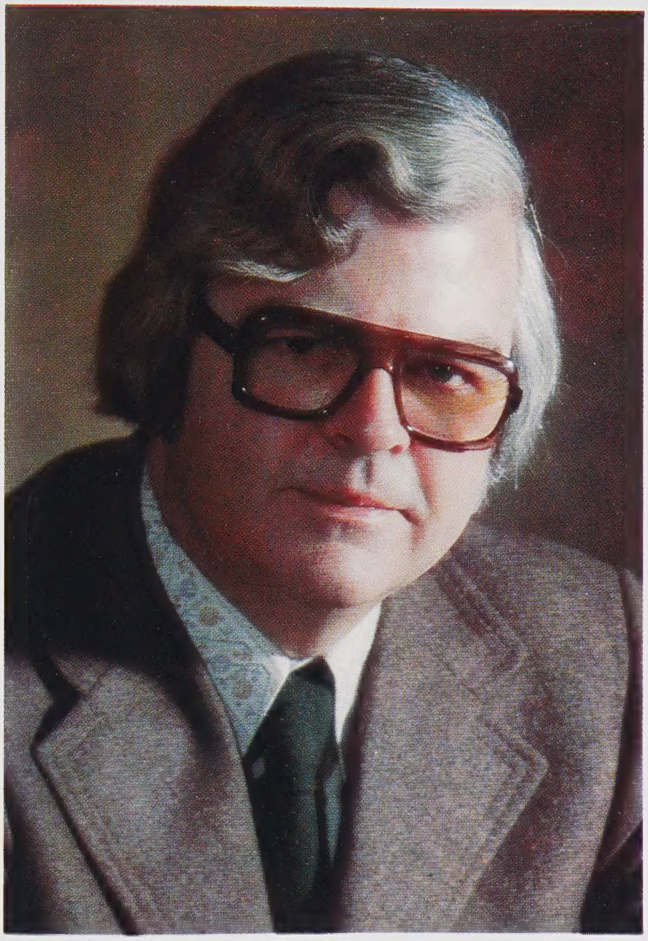
Honourable John C. Crosbie, Q.C.,
Minister of Mines and Energy,
Confederation Building,
St. John's, Nfld.

Dear Minister:

In accordance with the Newfoundland and Labrador Hydro Act, 1975, I am pleased to forward the Annual Report of the Board for the year ended December 31, 1975.

Yours sincerely,

D. J. Groom,
President and
Chief Executive Officer



Honourable John C. Crosbie, Q.C.,
Minister of Mines & Energy
Chairman.

Board Of Directors

Honourable John C. Crosbie, Q.C.,
Minister of Mines & Energy
Chairman.

D. J. Groom,
President and Chief Executive Officer

R. T. Martin

J. H. McKillop

A. J. Roche

V. L. Young

Management Committee

D. J. Groom,
President and Chief Executive Officer

W. S. Read,
Senior Vice-President

J.W. Beaver
President
Churchill Falls (Labrador) Corporation Limited

M. C. Burnes,
Vice-President and Secretary

W. W. Garland,
Vice-President, Finance and Administration.

C. J. Greene, Q.C.,
Vice-President, Legal.

J. P. Henderson,
Vice-President, Operations

E. P. McCormack,
Vice-President, Projects.

D. W. Mercer,
Vice-President, Corporate Planning.

Subsidiary Companies

Churchill Falls (Labrador) Corporation Limited
Gull Island Power Company Limited

D. J. Groom,
President and Chief Executive Officer

President's Foreword

Newfoundland and Labrador Hydro's first year of existence has been one of tremendous activity, a great deal of hard work and of positive accomplishments.

The structure of the old Newfoundland and Labrador Power Corporation has been radically changed. New departments responsible for such activities as Corporate Planning, Projects, Legal and Public Relations have been added and two subsidiary companies, Churchill Falls (Labrador) Corporation Limited and Gull Island Power Company Limited now form part of the Hydro group. Group assets exceed $1.2 billion and, with an installed capacity of 6.2 million kilowatts, Newfoundland and Labrador Hydro ranks as the fourth largest electric utility company in Canada.

A corporate identification programme was undertaken during the year and a new logo adopted. The now familiar logo is prominently displayed on all the Corporation's property, vehicles and stationery.

Increased public interest in the activities of Newfoundland and Labrador Hydro was evident in 1975 and requests for brochures, maps, films and for tours of hydro facilities all increased significantly. A school visitation programme was instituted and a new brochure was produced to meet the growing demand for information. Production has also commenced on a film which is designed to demonstrate the importance of the hydro potential of Labrador.

The major preoccupation for a great many of us in Newfoundland and Labrador Hydro during 1975, has been the Gull Island project.

In normal times, the problems associated with undertaking a project of this magnitude would be daunting. However, the past few years can hardly be regarded as having been normal. The energy crisis, triggered in October 1973 by a curtailment of oil production from the Middle East and accentuated in 1974 and 1975 by enormous increases in the world price of crude oil, has been a major reason for recent unprecedented levels of inflation, shortages of investment

capital and high interest rates. These latter factors have impacted unfavourably on the Gull project. In particular, the estimated cost of the project has been driven up to a figure which is now in excess of $2 billion.

The management of Newfoundland and Labrador Hydro remains committed to the concept of developing Gull Island and building a transmission system to connect the Island of Newfoundland to Labrador power and thus to the eastern Canadian grid. The co-operation of both the Federal Government and the Government of Quebec will be required to enable this to be done.

A source of concern to the management of Newfoundland and Labrador Hydro and to the managements of electric utility companies elsewhere in Canada, is the fact that electricity prices will continue to rise fairly sharply for the next several years. Given the high cost of establishing new facilities required to meet the increased demands of the 1980's, and the likely continued increase in the price of oil which is used in thermal generating facilities, further significant increases in the price of electricity seem unavoidable.

It is with a great deal of satisfaction that I view the initiative taken by the Premiers of the eastern Provinces of Canada on the matter of a strong eastern regional electrical transmission grid. Early development of Labrador's hydro resources would be greatly facilitated by a strengthened eastern regional grid and the resulting substitution of hydro-electric energy, for that produced by oil, would be very much in the national interest.

During the initial year of Newfoundland and Labrador Hydro's activities Mr. D.H. Fullerton, a well-known and respected financial consultant, was Chairman of the Board. Pressure of his other commitments forced Mr. Fullerton to resign his post on December 31, 1975. The Board of Directors and I are extremely indebted to Mr. Fullerton for his guidance and assistance during the Corporation's difficult formative period. Effective upon Mr. Fullerton's resignation, Honourable John C. Crosbie, Q.C., was appointed Chairman of the Board, on an acting basis.

On behalf of the Directors and the Management Committee of Newfoundland and Labrador Hydro, I would like to express sincere appreciation to all employees for their continued support and for their hard work during 1975.

D. J. Groom,
President and Chief Executive Officer

Projects

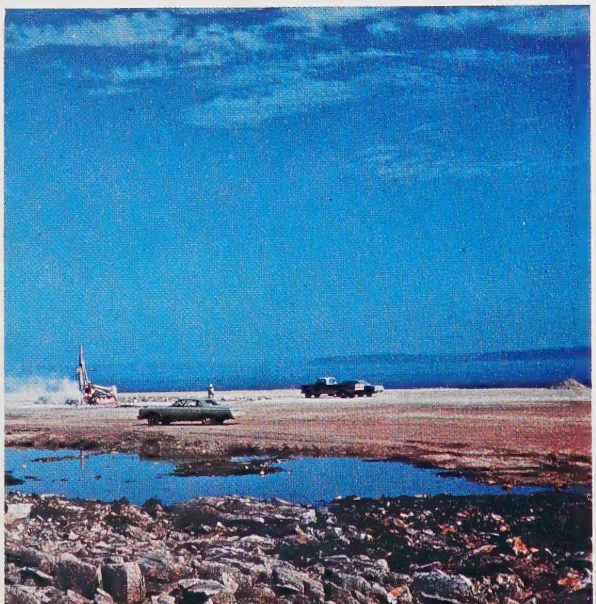
Gull Island

Early in 1975 the Government of Newfoundland and Labrador authorized Newfoundland and Labrador Hydro to proceed with development of the hydro-electric potential at Gull Island on the Lower Churchill River in Labrador, and with construction of a direct current transmission system from Labrador to the Island of Newfoundland. This system would include an 11-mile tunnel beneath the Strait of Belle Isle. The in-service date was to be January, 1981.

During the summer preliminary work was conducted under a project management group on all phases of the development. By mid-September, the project cost estimates were updated and indicated that the total estimated cost had risen to $2.3 billion. Numerous factors contributed to this significant increase, the more important of which were increases in interest rates, increased provisions for escalation during construction, design changes and refinements resulting from additional field information and other data.

In November, Newfoundland and Labrador Hydro and Government agreed to adopt a phased approach to the project by delaying further work at the hydro site while continuing the work on the transmission lines, terminals and tunnel, for an in-service date of January 1, 1982, instead of January 1, 1981.

This phased approach provided Newfoundland and Labrador Hydro with an opportunity to re-define the role of Gull Island Power Company Limited as a project owner and a decision was made to close the latter's Montreal office and to co-ordinate in St. John's all activities for the Gull Island project. These plans were advanced by year-end and are expected to be completed during the first half of 1976.



Far Left: Proposed terminal site, Strait of Belle Isle tunnel, at Point Amour, Labrador side.
Left: Proposed terminal site, Strait of Belle Isle tunnel, at Yankee Point, Newfoundland side.

Bay d'Espoir

Construction started in June, 1975, on an additional 150,000 kilowatt unit at Bay d'Espoir. This unit, which will increase the total generating capacity at Bay d'Espoir to 600,000 kilowatts, will be utilized to meet peak load requirements, for system back-up, and for short-term load requirements.

Engineering and construction management for the new unit is being undertaken by ShawMont Newfoundland Limited. By the year-end, all major equipment had been ordered and all major contracts let. The scheduled on-power date is November 1, 1977, and costs are expected to total $40 million.

Gas Turbines

The installation of gas turbines is being continued. These units are equipped with clutches permitting the generators to be used for voltage support when they are not generating power.

Construction of a 54 megawatt gas turbine at Stephenville was started in 1975 with on-power date estimated to be in April, 1976, and a similar unit was ordered for Hardwoods sub-station in the St. John's area for delivery in the summer of 1976, to be on-power by December 1976.

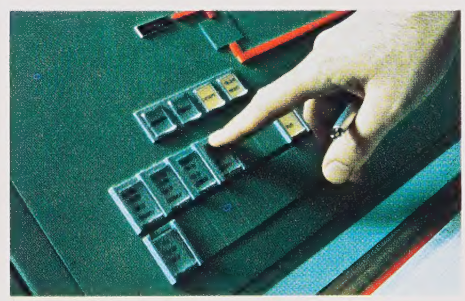
Transmissions and Terminals

A new 230/66 kilovolt terminal station was completed at the Stephenville gas turbine site and a new 66 kilovolt point of delivery was established to Newfoundland Light & Power Co. Limited. One mile of 230 kilovolt steel tower line was completed from the Labrador Linerboard mill to the new station.

Construction continued during the year on a second 230 kilovolt transmission line from Bay d'Espoir to Stony Brook. This line is scheduled for completion in August 1976.

Telecontrol

The supervisory control equipment for the remote control of Stony Brook, Buchans, Massey Drive and Bottom Brook terminals was received late in 1975 and installation is planned to be completed by May 1976. The equipment for remote control of the gas turbine at Stephenville was ordered during the year for delivery in April and commissioning in June 1976.



Financial

The Consolidated Financial Statements of Newfoundland and Labrador Hydro as at December 31, 1975, include the accounts of its newly-acquired subsidiary companies, Churchill Falls (Labrador) Corporation Limited ("CFLCo") and Gull Island Power Company Limited ("Gull Island"). Due to the acquisition of these subsidiaries, together with a change in the financial year end to December 31, comparative figures for the preceding period have not been included.

Newfoundland and Labrador Hydro acquired from the Province and a Provincial Crown corporation 65.8 per cent of the issued share capital of CFLCo for $167.3 million, effective January 1, 1975. The purchase was financed by means of a five-year bank loan of $134.1 million, short-term loans aggregating $10.7 million, and by the issue of 22,503,942 common shares with a par value of $1 each. During the year Newfoundland and Labrador Hydro purchased from Newfoundland Industrial Development Corporation all of the outstanding shares of Gull Island for their issue value.

Consolidated revenue from all sources for the year totalled $121.8 million, of which $87.4 million was attributable to CFLCo. Net income for the year amounted to $5.9 million. This included a non-recurring amount of $1.8 million, received pursuant to agreements with the Province, and $1.4 million, representing Newfoundland and Labrador Hydro's share of CFLCo's net income, after deducting interest costs attributable to the acquisition of CFLCo. At the end of 1975, retained earnings totalled $6.8 million.

Consolidated interest expense was $57.1 million. This amount includes amortization of debt discount and financing expenses and is net of earnings on investments, interest capitalized, exchange gains on debt transactions and $27.3 million recovered from Hydro-Quebec. The interest expense reflects the generally higher interest rates and the additional borrowings necessary to finance the acquisition of CFLCo shares.

The cost of property, plant and equipment in service and under construction at year-end totalled $1,242.7 million:

	million
Newfoundland and Labrador Hydro	$ 242.7
CFLCo	950.0
Gull Island	50.0
	$1,242.7

At December 31, 1975, the accumulated depreciation on property, plant and equipment totalled $41.4 million.

Long-term debt aggregating $53.3 million was incurred during the year by means of a debenture issue of 75 million Swiss francs, bearing interest at 8 per cent and repayable in 1981, and another for $25 million Canadian, bearing interest at $10^3/_4$ per cent and due in 1995.

The Lieutenant-Governor in Council
Province of Newfoundland

Auditors' Report

We have examined the consolidated balance sheet of Newfoundland and Labrador Hydro and its subsidiaries as of December 31, 1975 and the consolidated statement of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the successful conclusion of the financing and other arrangements to complete the Gull Island project as referred to in note 9 to the consolidated financial statements, these consolidated financial statements present fairly the financial position of the companies as of December 31, 1975 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

St. John's, Newfoundland
March 18, 1976

Signed
PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Newfoundland and Labrador Hydro

Assets

	(000)
Fixed assets (Note 2)	
Property, plant and equipment	$1,201,406
Current assets	
Cash and term deposits	16,655
Receivables	20,747
Fuel, supplies and prepaid expenses	4,920
	42,322
Investment in Twin Falls Power Corporation Limited (Note 3)	2,666
Unamortized debt discount and financing expenses	10,402
	$1,256,796

Consolidated Balance Sheet
December 31, 1975

Liabilities and Shareholder's Equity

	(000)
Long-term debt (Notes 4, 5 and 13)	$1,026,956
Current liabilities	
Accounts payable and accrued liabilities	29,641
Accrued interest	12,758
Promissory notes (Note 5)	39,556
Long-term debt due within one year	31,629
Note payable	10,000
	123,584
Provision for insurance	3,680
Deferred income taxes	21,959
Minority interest in Churchill Falls (Labrador) Corporation Limited	51,310
Shareholder's equity	
Share Capital	
Common shares of par value $1 each. Authorized 25,000,000 shares; issued 22,503,942 shares	22,504
Retained earnings	6,803
	29,307
	$1,256,796

See accompanying notes to Financial Statements

On behalf of the Board:

Signed Alexander J. Roche

Alexander J. Roche Director

Signed Victor Young

Victor Young Director

Newfoundland and Labrador Hydro Consolidated Statement Of Income And Retained Earnings For The Year Ended December 31, 1975

	(000)
Revenue	$121,841
Expenses	
Generation, transmission and administration	26,693
Depreciation	14,006
Interest Expense (Note 7)	57,055
	97,754
Net income before minority interest and deferred taxes	24,087
Deferred income taxes	9,056
Minority interest	9,136
Net income for the year (Note 11)	5,895
Retained earnings	
Beginning of year	908
End of year	$ 6,803

See accompanying notes to Financial Statements

Newfoundland and Labrador Hydro Notes To Consolidated Financial Statements December 31, 1975

In 1974, the name of Newfoundland and Labrador Power Commission was changed to Newfoundland and Labrador Power Corporation by the Newfoundland and Labrador Power Corporation Act, 1974. The Newfoundland and Labrador Hydro Act, 1975, changed the name to Newfoundland and Labrador Hydro-Electric Corporation with provision to abbreviate this name to Newfoundland and Labrador Hydro ("Hydro") and changed the fiscal year to correspond with the calendar year.

1. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated balance sheet includes the accounts of Hydro and those of its subsidiary companies, Churchill Falls (Labrador) Corporation Limited ("CFLCo") (65.8% owned) and Gull Island Power Company Limited ("GIPCo") (100% owned) and reflects the following:

(a) The purchase by Hydro of 4,989,330 common shares of CFLCo from Newfoundland Industrial Development Corporation for $144,751,000 financed by a bank loan of $134,065,000 (U.S. $135,201,000) and promissory notes due within one year of $10,686,000 (of which approximately $8,000,000 is payable in United States dollars).

(b) The acquisition by Hydro of 775,998 common shares of CFLCo from the Government of Newfoundland and the issue of 22,503,942 fully paid common shares of Hydro having a par value of $1 each in consideration therefor.

(c) Acquisition of the controlling interest in CFLCo accounted for by the purchase method as follows:

	(000)
Purchase price of shares	$167,255
Equity in book value of the net assets acquired	81,141
Excess of cost over book value	$ 86,114

The excess, assigned to the Churchill Falls Power Project ("CFLCo Project"), is being written off on a straight-line basis at the rate of $1^1/_2$% per annum.

A proportion of Hydro's shareholding in CFLCo is deposited in a voting trust pursuant to an agreement with Quebec Hydro-Electric Commission.

CFLCo owns voting control ($66^2/_3$%) of Twin Falls Power Corporation Limited ("Twin Falls"). However, such shares represent a $33^1/_3$% interest in the equity of Twin Falls. In view of the fact that the equity interest is only $33^1/_3$%, consolidation is not considered appropriate and the investment is carried on an equity basis.

(d) The purchase by Hydro of 10 shares of no par value of GIPCo at a cost of $10.

Fixed assets and depreciation

HYDRO and GIPCo

Plant under construction includes the cost incurred in preliminary feasibility studies, engineering and design of new generation and transmission facilities. Interest is charged to plant under construction at rates equivalent to the cost of borrowing funds.

Depreciation is calculated on hydro generating plant and on transmission plant in service on the sinking fund method at rates ranging from $5^1/_4$% to $8^1/_8$%. Depreciation on other plant in service is calculated on the straight-line method over the estimated service life. These methods are designed to fully amortize the cost of the facilities, after deducting grants in aid of construction, over their estimated useful lives.

Estimated service lives of the major assets are as follows:

Generation		
Hydroelectric	50-100	years
Thermal	30	years
Transmission		
Lines	50	years
Switching stations	40	years

CFLCo

With the commencement of commercial delivery of power on May 1, 1972 under the terms of the power contract dated May 12, 1969 with Quebec Hydro-Electric Commission ("Power Contract"), CFLCo adopted the policy of charging operations with depreciation at a rate of $1^1/_2$% per annum on a straight-line basis on the capital cost of the CFLCo Project. This rate is applied in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the CFLCo Project.

Plant and corporate costs and net interest expense are charged to operations in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the CFLCo Project. The balance of these costs is included in the capital cost of the CFLCo Project. The number of units generating power under the terms of the Power Contract has been as follows:

		% of Cost	
	Units Generating	Charged to Operations	In CFLCo Project Cost
Prior to May 1972	Nil	Nil	100
May to November 1972	2	20	80
December 1972 to August 1973	3	30	70
September to November 1973	4	40	60
December 1973 to August 1974	5	50	50
September to November 1974	6	60	40
December 1974 to August 1975	7	70	30
September to November 1975	8	80	20
December 1975	9	90	10

The proceeds from disposal of equipment purchased for use in the construction of the CFLCo Project are credited to project costs.

Debt discount and financing expenses

These costs are, in general, amortized on a straight-line basis over the lives of the respective issues.

Provision for self-insurance

Hydro and CFLCo include in operating expenses charges for self-insurance of certain risks for direct damage to assets and for related losses with respect to the deductibles stipulated in the insurance policies. $800,000 was charged to operations during the year.

Foreign currencies

Foreign currency accounts are stated in Canadian dollars on the following bases:

(a) Current assets and liabilities (exclusive of current portion of long-term debt of Hydro) at the rate of exchange prevailing at the balance sheet date, except for those liabilities covered by forward purchases of foreign currency.

(b) Long-term debt at the proceeds realized in Canadian currency at the time of conversion except in those cases where debt was incurred to discharge an obligation in the same foreign currency, in which cases the exchange rate prevailing when the loan was incurred is applied. No recognition is given in the accounts to unrealized gains or losses.

2. Fixed Assets

HYDRO

	(000)
Property, plant and equipment, at cost	$ 247,608
Less grants in aid of construction	24,000
	223,608
Less accumulated depreciation	11,382
	212,226
Plant under construction	19,105
	231,331
GIPCo	
Plant under construction (Note 9)	50,031
CFLCo (Note)	
CFLCo Project, at cost (Note 1 (c))	950,032
Less accumulated depreciation	29,988
	920,044
	$1,201,406

Note: The assets of CFLCo are pledged as security for the long-term debt of that company.

3. Investment in Twin Falls Power Corporation Limited

		(000)
Shares, at cost	$	2,500
Equity in retained earnings at January 1, 1975		167
Equity in net income for the year		774
Dividends for the year		(775)
	$	2,666

4. Long-Term Debt

Summary of long-term debt	HYDRO (000)	CFLCo (000)	TOTAL (000)
Bonds, notes and debentures	$158,941	$663,277	$ 822,218
Bank loan	107,252	—	107,252
Loans from Government of Canada	97,486	—	97,486
Total long-term debt	$363,679	$663,277	$1,026,956

Details of long-term debt are as follows:

HYDRO

Bonds, notes and debentures, redeemable at the option of Hydro at various times and at various rates, none of which exceed 102.8% of par.

Interest Rate	Year of Issue	Year of Maturity		Amount (000)
$5^1/_4$% (a)	1965	1990	U.S. $	33,240
$7^3/_4$%	1968	1993	U.S.	25,000
9%	1969	1994	U.S.	14,550
			U.S.	72,790 (b)
$8^1/_8$%	1972	1992		15,000
$8^7/_8$%	1974	1999		20,000
$10^3/_4$%	1975	1995		25,000
8%	1975	1981		28,286 (c)
				161,076
Less sinking fund investments				3,739
				157,337
Exchange premium at date of issue on long-term debt payable in United States Funds				5,423
				162,760
Less payment due within one year				3,819
			$	158,941

(a) These bonds are secured by an assignment of amounts receivable under present and future power contracts of Hydro.

(b) Long-term debt payable in United States currency is shown on the basis of $1 U.S. equals $1 Canadian.

(c) Proceeds of 75 million Swiss francs.

Bank loan

This loan, in the amount of $134,065,000 (U.S. $135,201,000) bears interest at various rates which at December 31, 1975 ranged from $8^5/_{16}$% to $9^7/_{16}$%. The interest rates are adjusted every six months and are based upon the London interbank offering rate for deposits of similar terms and amounts. Hydro has the option of repaying the whole or any part of each of the three equal tranches of the loan on any interest adjustment date by giving notice varying from 5 to 30 days, depending on the amount being repaid. As a condition of this loan Hydro has agreed not to dispose of, or create any encumbrance upon, 4,989,330 of the common shares of CFLCo which it holds. The loan is repayable in five equal annual instalments commencing in 1976. The current portion of this loan as of December 31, 1975 is $26,813,000.

Government of Canada Loans

These loans bear interest at various rates from $5^1/_4$% to $8^1/_2$% and each loan is repayable, commencing March 31 following the completion date of each related facility, by thirty to forty equal annual instalments including interest. The current portion of these loans as of December 31, 1975 is $997,000.

CFLCo

First Mortgage Bonds	(000)
$7^3/_4$% Series A due December 15, 2007 Authorized, issued and outstanding $500,000,000 (U.S.)	$513,277
$7^7/_8$% Series B due December 15, 2007 Authorized, issued and outstanding	50,000
	563,277
General Mortgage Bonds	
$7^1/_2$% due three years after latest maturity of any First Mortgage Bonds Authorized, issued and outstanding	100,000
	$663,277

The First Mortgage Bonds Series A are carried in the accounts at proceeds realized in Canadian dollars. From time to time CFLCo enters into forward purchases of U.S. dollars for the purpose of servicing this debt.

The First Mortgage Bonds are repayable in fixed semi-annual and in contingent annual sinking fund instalments commencing June 1978.

The Deed of Trust and Mortgage securing the General Mortgage Bonds (held by the Quebec Hydro-Electric Commission) provides for semi-annual sinking fund payments commencing in June of the fourth year following the completion of the CFLCo Project. Each payment will be an amount equal to 1% of the aggregate principal amount outstanding on January 1 preceding each payment date. The General Mortgage Bonds are subordinate to the First Mortgage Bonds.

Based on available information it is anticipated that the aggregate of sinking fund payments and repayments of long-term debt outstanding as of December 31, 1975 in the ensuing five years is as follows:

	(000)
1976	$ 32,000
1977	32,000
1978	55,000
1979	51,000
1980	53,000

As set out above, it is the policy of Hydro and CFLCo to record long-term debt obligations payable in currencies other than Canadian dollars at the Canadian dollar proceeds originally realized upon conversion. Based on exchange rates in effect at December 31, 1975, the approximate amount required to discharge foreign currency debt

obligations at that date may be compared with the recorded liability as follows:

	(000)
Long-term debt payable in United States dollars	$708,000
Long-term debt payable in Swiss Francs	75,000
Recorded in Canadian dollars in the accounts	$754,000
Canadian dollars required to discharge foreign currency debt based on rates of exchange at December 31, 1975	$748,000

5. Guarantees by the Province of Newfoundland

The Government of Newfoundland has unconditionally guaranteed the principal and interest on the long-term debt and promissory notes of Hydro, but not the debt of CFLCo.

6. Dividend Restrictions, CFLCo

Under the terms of its debt instruments, CFLCo is prohibited from paying cash dividends out of income accumulated before the completion date of the CFLCo Project, as defined and expected to be September 1976. These debt instruments also place restrictions on the payment of cash dividends out of income earned thereafter.

7. Interest Expense

	(000)
Gross interest	$84,012
Amortization of debt discount and financing expenses	329
	84,341
Less:	
Recovered from Quebec Hydro-Electric Commission	14,585
Interest during construction	11,229
Interest earned on investments	899
Exchange gain on sinking fund transactions and retirement of debt	573
	27,286
	$57,055

Under the terms of the Power Contract, Quebec Hydro-Electric Commission is obliged to pay to CFLCo a portion of the interest charges on the long-term debt and note payable of CFLCo. The amount payable by the Commission is the difference between interest calculated at the rates provided in the Power Contract and interest actually paid.

8. Sales of Power, CFLCo

The Power Contract provides for the sale of substantially all of the power from the CFLCo Project for an initial period of approximately 40 years with a renewal for a further period of 25 years. Sales of power under the Power Contract have been recorded at mill rates based on an estimate of the final capital cost of the CFLCo Project, as defined, and are subject to adjustment when such cost is determined. It is not anticipated that such adjustment will result in a decrease in recorded sales.

During the year CFLCo derived approximately $805,000 from the delivery of excess power made possible by the use of capacity not required to meet commitments under the Power Contract.

9. Gull Island Project

As of March 1976, plans call for a phased approach to the Gull Island Project. Phase I involves the construction of transmission lines from Gull Island to Churchill Falls and from Gull Island to the island of Newfoundland through a tunnel under the Strait of Belle Isle, scheduled to commence in 1976 and to be completed in 1981. Phase II, consisting of the construction of a generating station at Gull Island, has been deferred for at least one year.

Completion of the Project is subject to obtaining satisfactory financing arrangements, Government of Canada assistance and the cooperation of the Province of Quebec and Quebec Hydro-Electric Commission. The Government of Canada has stated that it is willing to provide financial assistance to the Project in the form of a long-term loan of $343 million, plus interest thereon capitalized during construction. This offer is being reviewed by the Government of Canada in light of the proposed two phase approach to the Project, inflation and other factors.

Preliminary estimates of the cost of the Gull Island Project total in excess of $2 billion. At December 31, 1975 expenditures incurred aggregated $50,031,000 and in addition there were contractual commitments of approximately $26,000,000 related to the Project.

10. Commitments and Contingent Liabilities

(a) At December 31, 1975, CFLCo was defending legal actions claiming, in the aggregate, approximately $4,000,000 arising from claims submitted by a contractor in connection with the development of the CFLCo Project.

(b) CFLCo has a sublease with Twin Falls giving that Company the right to develop the hydroelectric power potential of the Unknown River, a tributary of the Churchill River, at the site of the Twin Falls plant. The sublease expires December 31, 1989, but may be renewed for a term of 25 years under certain conditions if Twin Falls so requests. Under the terms of the sublease, CFLCo suspended certain of Twin Falls' rights under the sublease with effect from June 30, 1974, and accordingly, CFLCo is diverting the flow of water from the Twin Falls plant and using the facilities of Twin Falls as required. In consideration for this suspension of rights, CFLCo is required to deliver to Twin Falls at an agreed price, during the unexpired term of the sublease or any renewal thereof, horsepower equivalent to the installed horsepower of the Twin Falls plant. In addition, CFLCo is required, at its own expense, to keep and maintain in good working order all structures, works and plant of Twin Falls.

(c) Contractual commitments as of December 31, 1975, total approximately $56,500,000 which amount includes $26,000,000 referred to in Note 9 above.

11. Non-Recurring Item

Included in income is a net amount of approximately $1,800,000, resulting from agreements with the Province of Newfoundland, which is not likely to recur.

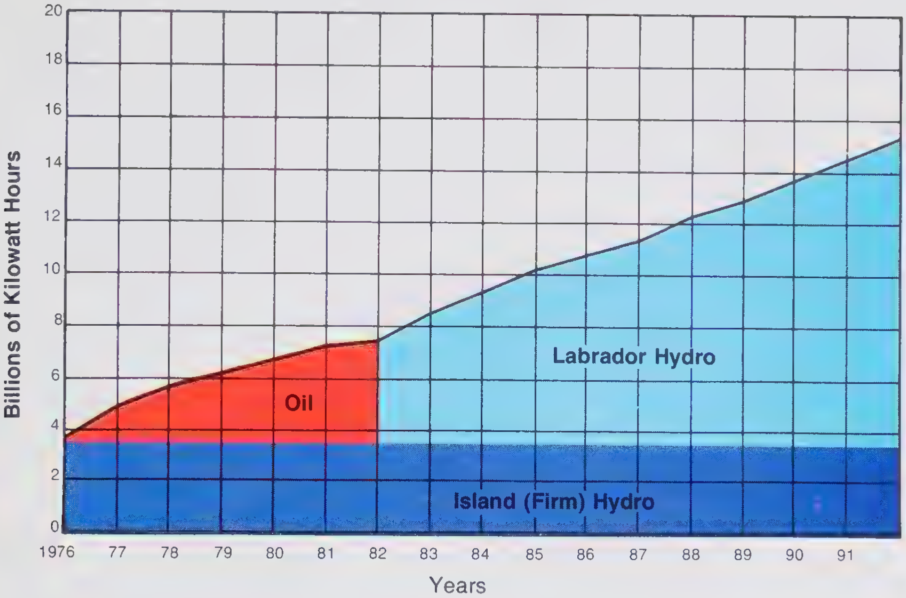
12. Anti-Inflation Act

Hydro is subject, in part, to the Anti-Inflation Act and Regulations, which became effective October 14, 1975. As a result Hydro's ability to pay dividends and increase compensation subsequent to that date is restricted and its subsidiaries are restricted as to prices, profits, dividends and compensation.

13. New Financing

On March 18, 1976 Hydro entered into an agreement with underwriters for the sale of 25 million United States dollar 9¾% Debentures due March 15, 1986 at a price equal to 97½% of the principal amount thereof.

Newfoundland (Island)
Estimated Annual Generation



Note: Labrador Hydro refers to the planned infeed of hydro energy from Labrador to the Island of Newfoundland.

Planning

The newly created Corporate Planning Department of Newfoundland and Labrador Hydro embraces several divisions including Electrical System Planning, Economic Analysis, Management Information and of special public interest Environmental. The latter has been added to the group to ensure that all aspects of Newfoundland and Labrador Hydro's current operations and construction, as well as the planning of future developments, reflect the high environmental maintenance standards necessary to protect the natural heritage of Newfoundland and Labrador.

Recently completed forecasts predict that the Island of Newfoundland will experience an electrical load growth of approximately 8 per cent during the period from 1975 to 1990. Thus, by 1990, 14 billion kilowatt hours of generation will be required.

Extensive studies were undertaken during 1975 to identify the most economical means of meeting this demand. These studies demonstrated that the Province should direct its attention to the vast hydro-electric potential of Labrador. Accordingly, special emphasis was placed on planning construction of a high voltage direct current transmission link to connect the Island of Newfoundland with hydro facilities planned for construction at Gull Island, and with the existing generating plant at Churchill Falls, Labrador.

Corporate staff worked closely with consultants on studies of the energy potential of the Churchill River, generation optimization studies for the Gull Island hydro plant, and system load flow and stability studies for the high voltage direct current transmission system.

Environmental protection policies relating to the Gull Island project construction were under intensive development during 1975 in co-operation with Federal and Provincial environmental agencies and other concerned private interest groups.

Operations:

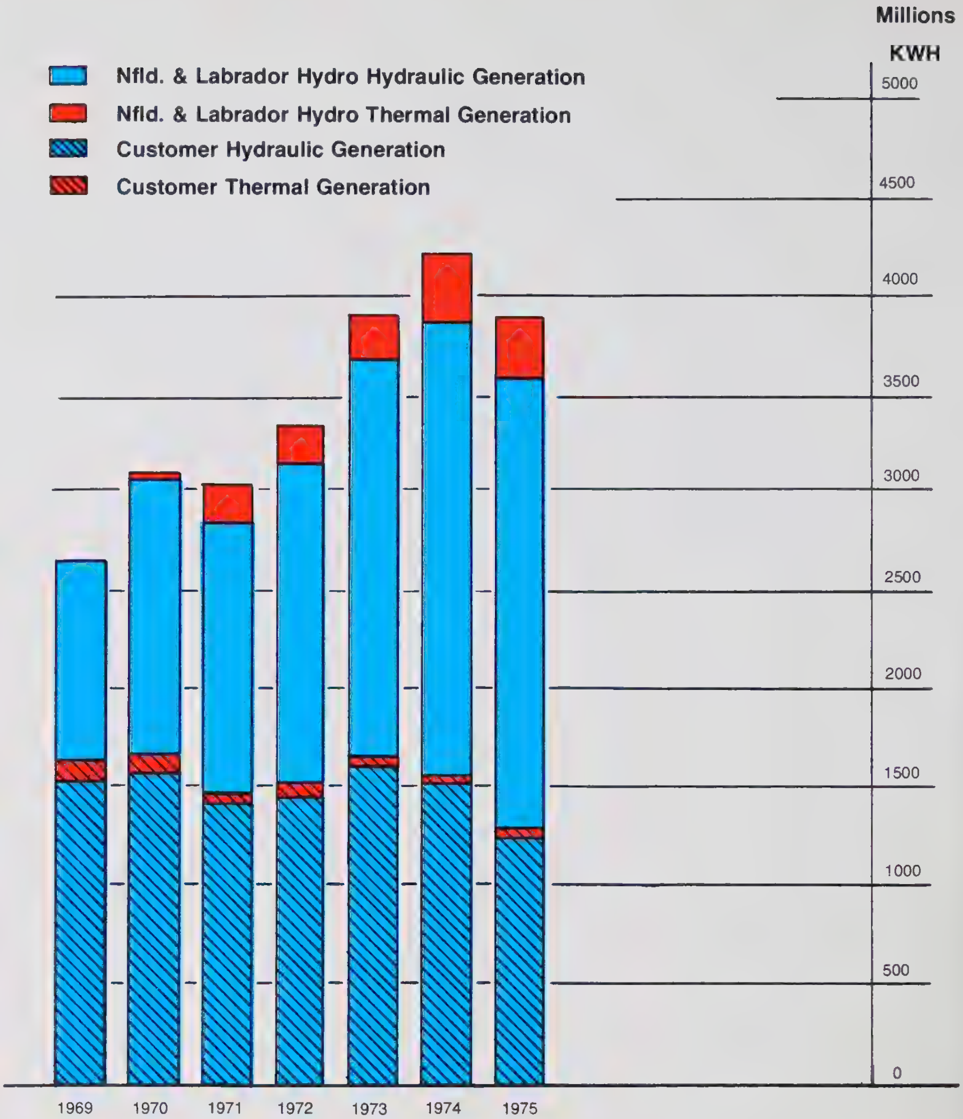
Soft market conditions and disruptions of industrial production through labour disputes resulted in a reduction of 33 per cent in Newfoundland and Labrador Hydro sales to industrial customers. Offsetting this reduction was an increase of 26 per cent in sales to utility customers. Firm power sales for 1975 were slightly higher than in 1974.

In total, Newfoundland and Labrador Hydro's plants produced 2,642 billion kilowatt hours of energy during 1975 compared with 2,687 billion kilowatt hours the previous year.

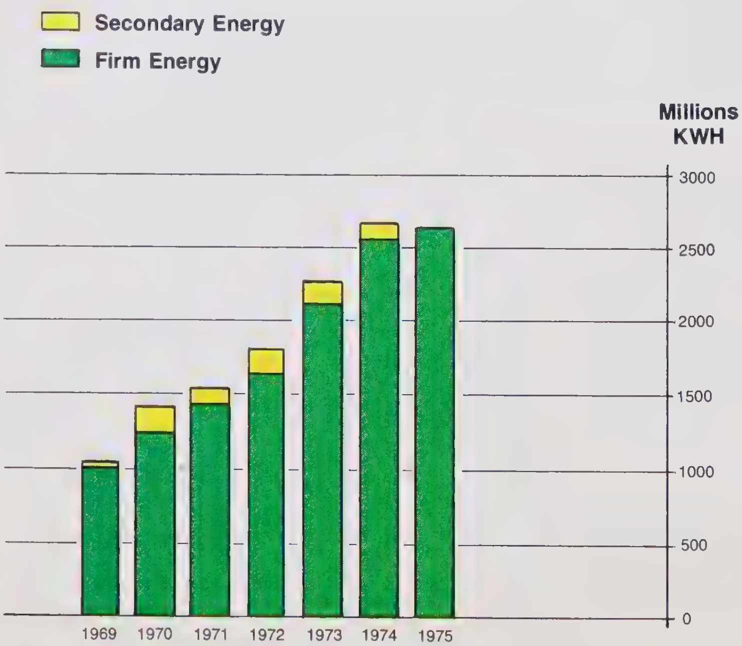
Relatively dry winter and summer seasons in 1975 resulted in the runoff in the Bay d'Espoir watershed being approximately 90 per cent of its normal amount. With the reduced water storage, production at Bay d'Espoir was 2,323 billion kilowatt hours. The remaining 319 billion kilowatt hours were produced by thermal plants.

The programme of increasing the stainless steel overlay on areas of the turbine runners and wicket gates at Bay d'Espoir, which was commenced in 1971, was completed during the year with the overhaul of the last of six units.

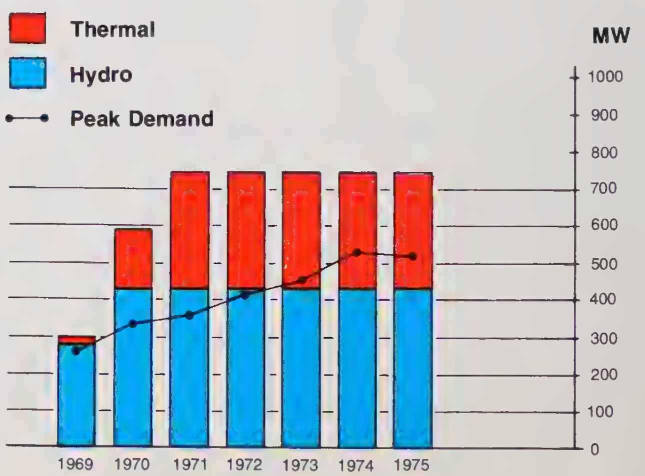
Total Island Generation



Sales (Newfoundland and Labrador Hydro only)



Generating Capacity & Demand (Newfoundland and Labrador Hydro only)



Negotiations were initiated during the year with several customers regarding their future power requirements. A new sales agreement was signed with Newfoundland Light & Power Co. Limited, resulting in a rate increase from 6 mills to 9.7 mills per kilowatt hour effective April 1, 1975 for a minimum period of twelve months.

A tragic accident occurred early in January, 1976, when 32-year-old Glynn McGowan was killed, and five other Newfoundland and Labrador Hydro employees from our Labrador headquarters were injured in a plane crash near Goose Bay, Labrador.

Personnel

The establishment of several new departments within Newfoundland and Labrador Hydro during 1975 necessitated a major re-structuring of the organization.

Senior appointments included W.S. Read, Senior Vice-President; W.W. Garland, Vice-President Finance and Administration; D.W. Mercer, Vice-President, Corporate Planning; J.P. Henderson, Vice-President, Operations; E.P. McCormack, Vice-President, Projects; C.J. Greene, Q.C., Vice-President, Legal; M.C. Burnes, Vice-President and Secretary; C.W. Bursey, Director, Public Relations; and S. Dicks, Director, Industrial Relations.

Further re-structuring took place within the various departments to give effect to the expansion of Newfoundland and Labrador Hydro's activities.

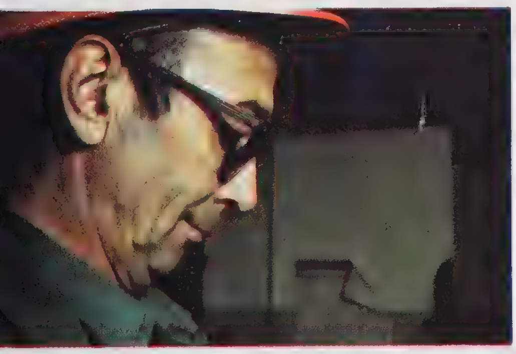
At December 31, 1975, Newfoundland and Labrador Hydro had 857 employees, 460 of whom were directly involved in administering the rural electrification programme.

Collective Agreements

Newfoundland and Labrador Hydro and local 1615 of the International Brotherhood of Electrical Workers successfully concluded agreements covering both operations and office workers. The agreements cover approximately 500 employees for a two-year period. Renewal dates are April 1, 1976, for wages, and April 1, 1977, for all other items.






Training

As part of its continuing staff training and up-grading policy, Newfoundland and Labrador Hydro developed and implemented a new apprenticeship programme for plant operators during the year. The objective of this policy is to provide the skilled personnel required to operate Newfoundland and Labrador Hydro's generating facilities.

Safety

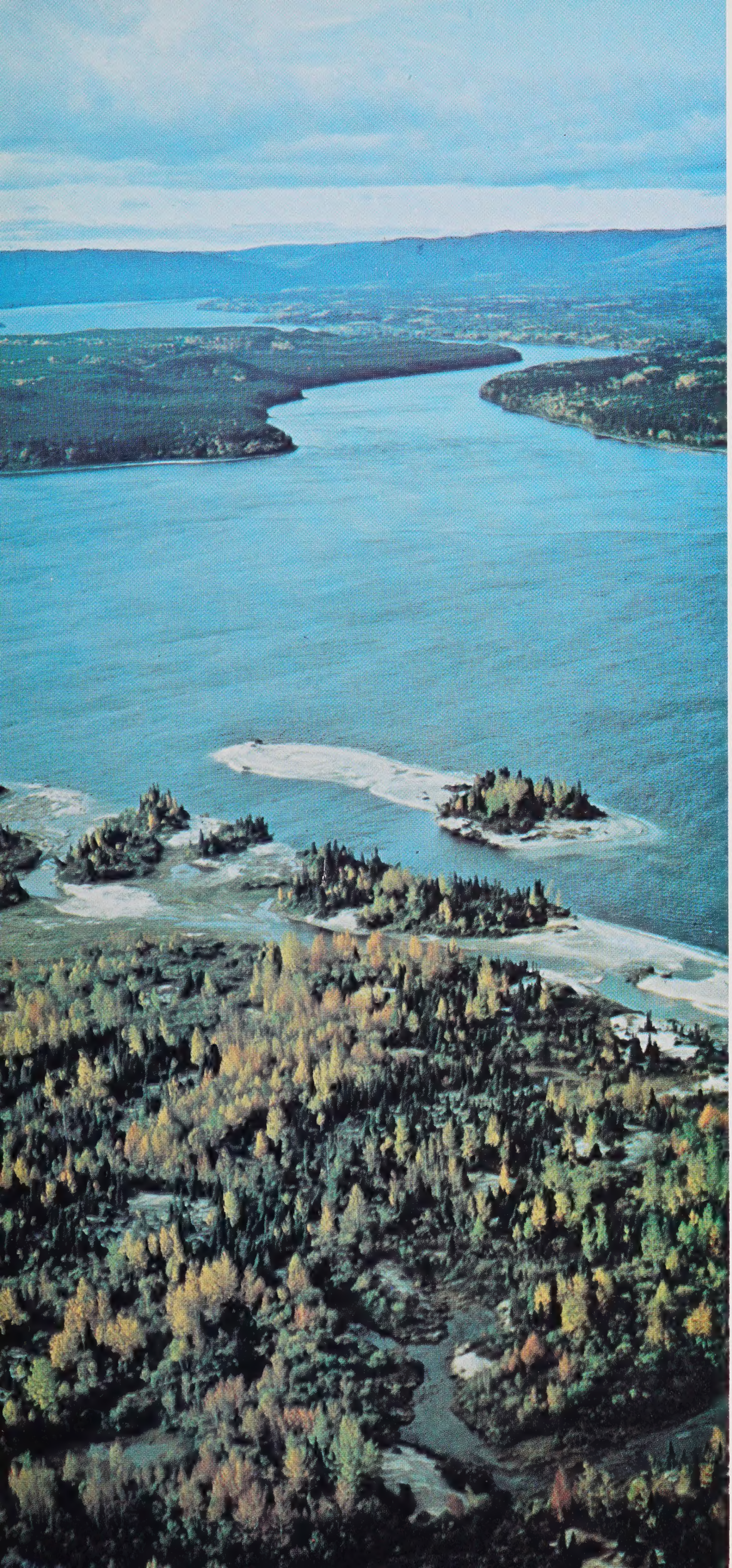
The efforts of Newfoundland and Labrador Hydro to ensure a safe working environment were recognized on two occasions during the year. The American Public Power Association awarded Newfoundland and Labrador Hydro an honourable mention for safety. In addition, the Canadian Electrical Association reported that, while Newfoundland and Labrador Hydro had ranked eighth among twelve utilities in lost-time accidents in 1974, by 1975 it had improved its ranking to third.

Churchill Falls (Labrador) Corporation Limited

In 1975, the first year in which all eleven turbine-generator units were in service providing a capacity of 5,225,000 kilowatts, the Churchill Falls plant continued to meet all contractual energy commitments.

The most important of the maintenance problems which arose during the year involved generating unit number one which will have been out of service for approximately four months before it goes back on line this spring. Another problem concerned the rate of erosion in the concrete apron downstream from the Lobstick control structure. The erosion was first observed in the fall of 1975 during a routine underwater inspection and will be kept under surveillance to determine what remedial action is required.

The capital construction program included an extension to the Control and Administration Building, permitting the consolidation of operation and administrative personnel. Also in the program were a maintenance and warehouse complex; twelve additional houses and four additional apartment buildings.



The agreement between the company and local 2351 of the International Brotherhood of Electrical Workers, involving about 120 operations and maintenance personnel, expired in November, 1975. Negotiations on a new agreement having been unsuccessful, a conciliation board was appointed prior to year-end but failed to bring about accord between the parties. Negotiations have remained inconclusive since that time.

Through its associated company - Twin Falls Power Corporation Limited - final agreement was concluded with the Iron Ore Company of Canada relating to the cost of expanding the Wabush terminal station. Negotiations are underway with the same company for a long-term contract to supply it with additional power.

Net income for 1975, after provision for income taxes, was $26.7 million, compared with $20.5 million in 1974, reflecting increased revenues from sales of power (1975: $85.8 million — 1974: $64.0 million).

Direct construction costs on the Churchill Falls project in 1975 were $8.3 million, which brought the total direct construction costs to $663.2 million, and aggregate capital costs of the project to $950.0 million at the end of 1975.

Signed on behalf of the Board

Roland T. Martin

Roland T. Martin

Alexander J. Roche

Alexander J. Roche

Newfoundland and Labrador Hydro 1975 at a glance

Power and Energy Sales		$130 million
Energy Sales		
- Industrial	2.6	
- Utility	1.8	
- Export	29.6	
	34.0	billion kilowatt hours
Capital Expenditures		$ 85 million
Investment in Plant		$ 1.2 billion
Generating Capacity		6,220,000 kilowatts
Average annual energy capability		39 billion kilowatt hours

Transmission lines

Voltage	Miles
735,000	378
230,000	941
138,000	277
66,000	186
Total	1782

Reservoirs: Drainage area - 29,023 square miles
Water storage - 1,190 billion cubic feet

Payroll	$ 17 million
Employees	1100 persons

Note: The above data represents the position of Newfoundland and Labrador Hydro combined with Churchill Falls (Labrador) Corporation Limited, Twin Falls Power Corporation Limited and Gull Island Power Company, Limited.

Newfoundland and Labrador Hydro

Head Office: Philip Place, St. John's, Newfoundland, Telephone (709) 753-8990, Telex: 016-4503